

REED CITY HOUSING COMMISSION  
REED CITY, MICHIGAN

FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2004  
AND  
REPORTS ON INTERNAL CONTROL AND  
COMPLIANCE

# AUDITING PROCEDURES REPORT

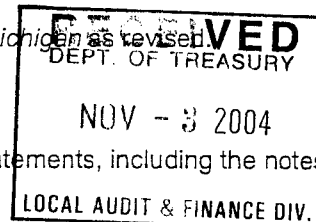
Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <i>Reed City Housing Commission</i>	County
Audit Date <i>6/30/04</i>	Opinion Date <i>10/20/04</i>	Date Accountant Report Submitted to State: <i>11/2/04</i>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.



We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

## We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) <i>Barry E. Gaudette, CPA, PC</i>			
Street Address <i>1107 E. 9th Street</i>	City <i>Traverse City</i>	State <i>MI</i>	ZIP <i>49696</i>
Accountant Signature <i>Barry E. Gaudette CPA</i>			

REED CITY HOUSING COMMISSION  
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INTRODUCTION

**Barry E. Gaudette, CPA, P.C.**

CERTIFIED PUBLIC ACCOUNTANT

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Traverse City, Michigan 49686  
(231) 946-8930  
Fax (231) 946-1377

***Independent Auditor's Report***

Board of Commissioners  
Reed City Housing Commission  
Reed City, Michigan

We have audited the accompanying statement of net assets of the Reed City Housing Commission, Michigan (a component unit of the City of Reed City) as of June 30, 2004, and the related statements of revenues, expenses, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Housing Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Reed City Housing Commission, Michigan, as of June 30, 2004, and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2004 on our consideration of the Housing Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Reed City Housing Commission  
Independent Auditor's Report  
Page Two

Management's Discussion and Analysis is not a required part of the financial statements, but is supplementary information the Government Accounting Standards Board requires. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion thereon.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Financial Data Schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Housing Commission. The accompanying Schedule of Expenditures of Federal Awards, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Bary E. Finkbeiner, CPA, PC*

October 20, 2004

REED CITY HOUSING COMMISSION  
REED CITY, MICHIGAN  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)**  
June 30, 2004  
=====

The Reed City Housing Commission, created in 1968, by the City of Reed City provides housing to meet the community's needs for affordable low-income housing. As management of the Housing Commission, we offer readers this narrative overview and analysis of the financial activities of the Housing Commission for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with the Housing Commission's financial statements.

**Financial Highlights**

The financial statements for Reed City Housing Commission consists of four programs. The first is owned housing, consisting of 101 units of public housing, the second is the capital funding program, the third is the housing choice voucher program consisting of 90 qualifying low-income residents for rental housing, and the Housing Commission has a fourth program that is for the Voucher Program administrative fee monies.

The assets of the Housing Commission exceeded its liabilities at the close of the most recent fiscal year by \$2,424,026. The Housing Commission's total net assets decreased by \$64,419. The decrease is due in part by the depreciation expense of \$134,713.

Total assets of the Housing Commission were \$2,501,153 and also, there was \$540,387 of current assets and \$77,127 in current liabilities.

**Overview of the Financial Statements**

The financial statements included in this annual report are those of a special-purpose government engaged only in a business-type activity. The following statements are included:

- \* Statement of Net Assets - reports on the Housing Commission's current financial resources with capital and other assets and other liabilities.
- \* Statement of Revenues, Expenses, and Changes in Fund Net Assets - reports the Housing Commission's operating and non-operating revenues, by major source along with operating and non-operating expenses and capital contributions.
- \* Statement of Cash Flows - reports the Housing Commission's cash flows from operating, investing, capital, and non-capital activities.

REED CITY HOUSING COMMISSION  
 REED CITY, MICHIGAN  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A) - CONTINUED**  
 June 30, 2004

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**Financial Analysis of the Housing Commission**

The following combined condensed balance sheets show a summary of changes for the years ended June 30, 2004 and 2003.

	<u>2004</u>	<u>2003</u>	<u>Net Change</u>
Current assets	\$ 540,387	\$ 536,345	\$ 4,042
Property and equipment	<u>1,960,766</u>	<u>2,029,873</u>	<u>( 69,107)</u>
Total assets	<u>\$2,501,153</u>	<u>\$2,566,218</u>	<u>\$ ( 65,065)</u>
Current liabilities	<u>\$ 77,127</u>	<u>\$ 77,773</u>	<u>\$ ( 646)</u>
Total liabilities	<u>77,127</u>	<u>77,773</u>	<u>( 646)</u>
Net assets:			
Invested in capital assets	1,960,766	2,050,840	( 90,074)
Unrestricted	<u>463,260</u>	<u>437,605</u>	<u>25,655</u>
Total net assets	<u>2,424,026</u>	<u>2,488,445</u>	<u>( 64,419)</u>
Total liabilities and net assets	<u>\$2,501,153</u>	<u>\$2,566,218</u>	<u>\$ ( 65,065)</u>



REED CITY HOUSING COMMISSION  
REED CITY, MICHIGAN  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A) - CONTINUED**  
June 30, 2004

=====

**Financial Analysis of the Housing Commission (continued)**

The following table summarizes the Statement of Revenues, Expenses and Changes in Net Assets of the Housing Commission for the years ended June 30, 2004 and 2003.

	<u>2004</u>	<u>2003</u>	<u>Net Change</u>
<b>Operating revenues:</b>			
Dwelling rent	\$ 258,084	\$ 261,756	\$( 3,672)
Nondwelling rent	<u>1,959</u>	<u>1,751</u>	<u>208</u>
Total operating revenues	<u>260,043</u>	<u>263,507</u>	<u>( 3,464)</u>
<b>Operating expenses:</b>			
Administration	202,483	170,458	32,025
Tenant services	780	1,747	( 967)
Utilities	95,906	90,539	5,367
Ordinary maintenance and operation	146,577	138,581	7,996
General expenses	53,804	54,759	( 955)
Housing assistance payments	255,832	211,207	44,625
Depreciation	<u>134,713</u>	<u>135,498</u>	<u>( 785)</u>
Total operating expenses	<u>890,095</u>	<u>802,789</u>	<u>87,306</u>
<b>Non-operating revenue:</b>			
Interest income	7,655	14,325	( 6,670)
Operating grants	445,337	386,536	58,801
Capital grants	65,607	111,355	( 45,748)
Gain/loss on sale of assets	500	75	425
Other income	<u>46,534</u>	<u>21,450</u>	<u>25,084</u>
Total nonoperating revenue	<u>565,633</u>	<u>533,741</u>	<u>31,892</u>
<b>Prior period adjustments</b>	<u>          </u>	<u>410</u>	<u>( 410)</u>
<b>Change in Net Assets</b>	<u><u>\$ ( 64,419)</u></u>	<u><u>\$ ( 5,131)</u></u>	<u><u>\$ ( 59,288)</u></u>

FINANCIAL STATEMENTS

REED CITY HOUSING COMMISSION  
COMBINED STATEMENT OF NET ASSETS  
June 30, 2004  
=====

**ASSETS**

Current Assets:

Cash	\$ 495,903
Accounts receivable-tenants	1,891
Allowance for doubtful accounts	( 1,795)
Prepaid expenses	19,485
Due from other programs	<u>24,903</u>

Total Current Assets	<u>540,387</u>
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Property, Plant, and Equipment:

Land	44,618
Buildings	2,287,625
Equipment	358,616
Building improvements	1,466,930
Construction in progress	<u>176,962</u>

	4,334,751
Less: accumulated depreciation	<u>( 2,373,985)</u>

Net Property, Plant, and Equipment	<u>1,960,766</u>
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Total Assets	<u><u>\$ 2,501,153</u></u>
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See notes to financial statements

REED CITY HOUSING COMMISSION  
COMBINED STATEMENT OF NET ASSETS (CONTINUED)  
June 30, 2004  
=====

**LIABILITIES and NET ASSETS**

Current Liabilities:

Accounts payable	\$ 21,770
Tenant security deposit liability	19,642
Accrued expenses	6,416
Deferred revenues	4,396
Due to other programs	<u>24,903</u>

Total Current Liabilities	<u>77,127</u>
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Net Assets:

Invested in capital assets	1,960,766
Unrestricted net assets	<u>463,260</u>

Total Net Assets	<u>2,424,026</u>
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Total Liabilities and Net Assets	<u><u>\$ 2,501,153</u></u>
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See notes to financial statements

REED CITY HOUSING COMMISSION  
COMBINED STATEMENT OF REVENUE, EXPENSES AND  
CHANGES IN NET ASSETS  
Year Ended June 30, 2004  
=====

**OPERATING REVENUES:**

Dwelling rent	\$ 258,084
Non-dwelling rent	<u>1,959</u>
Total operating revenues	<u>260,043</u>

**OPERATING EXPENSES:**

Administration	202,483
Tenant services	780
Utilities	95,906
Ordinary maintenance and operation	146,577
General expenses	53,804
Housing assistance payments	255,832
Depreciation	<u>134,713</u>
Total operating expenses	<u>890,095</u>

Operating income(loss) ( 630,052)

**NONOPERATING REVENUES AND (EXPENSES):**

Investment interest income	7,655
Other income	46,534
Gain on sale of fixed assets	500
Capital grants	65,607
Operating grants	<u>445,337</u>
Total nonoperating revenues(expenses)	<u>565,633</u>

Net income(loss) ( 64,419)

Net assets, beginning 2,488,445

Net assets, ending \$ 2,424,026

See notes to financial statements

REED CITY HOUSING COMMISSION  
**COMBINED STATEMENT OF CASH FLOWS**  
 Year Ended June 30, 2004  
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**Cash flows from operating activities:**

Operating(loss)	\$( 630,052)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:	
Depreciation	134,713
Bad debt expense	72
Changes in assets and liabilities:	
(increase) decrease in assets:	
Accounts receivable-tenants	2,547
Prepaid expenses	3,459
Due from other funds	( 24,218)
Increase (decrease) in liabilities:	
Accounts payable-operations	( 1,152)
Accrued compensated absences	( 330)
Accounts payable-PILOT	( 927)
Tenant security deposits	105
Deferred revenues	1,807
Due to other funds	<u>24,218</u>
Net cash (used in) operating activities	<u>( 489,758)</u>

**Cash flows from noncapital  
financing activities:**

Operating grants	423,341
Other revenue	<u>46,534</u>
Net cash provided by noncapital financing activities	<u>469,875</u>

**Cash flows from capital and related financing  
activities:**

Gain on sale of fixed assets	500
Capital grants	65,607
Payments for capital acquisitions	<u>( 65,607)</u>
Net cash provided by capital and related financing activities	<u>500</u>

REED CITY HOUSING COMMISSION  
COMBINED STATEMENT OF CASH FLOWS (CONTINUED)  
Year Ended June 30, 2004  
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**Cash flows from investing activities:**

Certificates of deposits matured	234,519
Receipts of interest and dividends	<u>7,656</u>

Net cash provided by investing activities	<u>242,175</u>
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Net increase(decrease) in cash	222,792
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Cash, beginning	<u>273,111</u>
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Cash, ending	<u><u>\$ 495,903</u></u>
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**Reconciliation of cash and cash equivalents per statement of cash flows to the balance sheet:**

Cash	<u>\$ 495,903</u>
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Cash and cash equivalents per balance sheet	<u><u>\$ 495,903</u></u>
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See notes to financial statements

REED CITY HOUSING COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2004

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**The Reporting Entity**

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the Reed City Housing Commission. The Reed City Housing Commission is a component unit of the City of Reed City, a Michigan home rule city. The Housing Commission is a Public Housing Agency created by the City of Reed City on April 30, 1968, consisting of a five member board appointed by the City Manager and charged with the responsibility to provide and service housing to meet the community's needs for affordable low-income housing. These financial statements include all of the resources and activities of the Reed City Housing Commission over which the Housing Commission exercises operational control or which have financial significance to the Housing Commission.

**Grants and Other Intergovernmental Revenues**

The Housing Commission has entered into contracts with the U.S. Department of Housing and Urban Development (HUD). Under Contract C-3052, the Housing Commission constructed, maintains and operates 101 units of subsidized housing in the City of Reed City, Michigan. Under Contract C-3052, the Housing Commission manages a Housing Choice Voucher program of subsidies for 90 qualifying low-income residents for rental housing. The Housing Commission receives an annual operating subsidy determined under a performance formula for units owned by the Housing Commission and an administrative fee based on the number of households it assists under its Housing Choice Voucher program.

**Fund Accounting**

The accounts of the Housing Commission are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, equity, revenues, and expenses. The Housing Commission's fund structure includes only proprietary funds. Under generally accepted accounting principles, proprietary funds are grouped into two broad categories - enterprise and internal service funds. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered through user charges; or (b) where laws or regulations require that the activity's costs of



REED CITY HOUSING COMMISSION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2004  
=====

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Fund Accounting (Continued)**

providing services including capital costs (such as depreciation or debt service) be recovered with fees and charges rather than with taxes and similar revenues. All of the Housing Commission's funds are operated as enterprise type proprietary funds whereby costs of services are to be recovered through user charges or subsidies from other governmental units.

**Basis of Accounting**

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus. The Housing Commission's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Under the economic resources measurement focus, all assets and all liabilities (whether current or noncurrent) are included in the balance sheets of the individual funds. Their reported net assets are segregated into invested capital assets and unrestricted net asset components. Operating statements present increases (revenues) and decreases (expenses) in net assets.

Under the accrual basis of accounting, all revenues are recorded when earned, regardless of when received, and all expenses are recorded when a liability is created, regardless of when paid.

In accordance with Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the City of Reed City has elected to apply only those Financial Accounting Standards Board Statements issued prior to November 30, 1989 to its proprietary funds and to the proprietary funds of its component units.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Housing Commission considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

**Insurance**

The premiums on all major insurance policies are charged to prepaid insurance and amortized over the life of the policy.

REED CITY HOUSING COMMISSION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2004  
=====

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Budgets and Budgetary Accounting**

The Housing Commission is required under each of its HUD contracts to adopt an annual operating budget which must be approved by HUD. Budgetary data and comparison of actual and planned performance is reported directly to HUD based on specific program reporting requirements.

**Receivables**

All receivables are reported at their net value, reflecting where appropriate, by the estimated portion that is expected to be uncollectible. The Housing Commission estimates the uncollectible portion of tenant rents as a percentage of gross tenant rents using prior collection experience.

**Short-term Interfund Receivables/Payables**

During the course of operations, numerous transactions occur between individual funds. Receivables and payables arising from these transactions are classified as "due from other funds" and "due to other funds" on the statement of net assets.

**Fixed Asset Capitalization**

Fixed assets with a cost to acquire or construct of \$25 or more are capitalized and depreciated over their estimated useful lives. Depreciation is provided on a straight-line basis using the following estimate of useful lives:

Buildings	20 - 40 years
Equipment and furnishings	5 - 7 years
Building improvements	7 - 20 years

**Net Assets**

The Housing Commission classifies its net assets as follows:

- a. Invested in capital assets represents pre-2001 contributions from grants, HUD notes, and other aids for capital acquisitions and improvements.
- b. Unrestricted net assets indicate that portion of net assets which is available for use in future periods.

REED CITY HOUSING COMMISSION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2004  
=====

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Operating Revenues and Expenses**

The Housing Commission includes in operating revenues resources that are derived or received from exchange transactions. Resources derived principally from non-exchange transactions are excluded from operating income. Operating expenses include the cost of providing services, excluding depreciation. Depreciation, amounts expended for capital additions and amounts expended for retirement-of-debt are excluded from operating expenses. Depreciation expense is charged to invested capital assets rather than unrestricted net assets.

**Use of Estimates**

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of management estimates. The Housing Commission uses estimates of useful lives of its fixed assets and other estimates in preparing its financial statements. Actual results may differ from the Housing Commission's estimates.

**Vacation and Sick Leave**

The Housing Commission allows permanent employees to accumulate the following compensated absences:

- \* Vacation leave: Vacation with pay shall be granted to all employees who have completed twelve(12) months of service.

In no case shall an employee be allowed to accrue, at any one time, more than one and one-half the amount of annual vacation to which he/she is entitled. If the amount of accrued vacation exceeds one and one-half the amount of annual vacation to which the person is entitled, it shall to receive.

If a new employee leaves employment before completing one (1) year of service, she/he will receive no vacation pay. An employee who has served one(1) year or more can be paid for any unused vacation due him/her when he/she leaves the Commission service on a pro rata basis. An employee who resigns without giving two(2) weeks prior notification to the Commission may not be paid unused vacation. be permanently lost and the employee shall not be allowed

REED CITY HOUSING COMMISSION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2004  
=====

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Vacation and Sick Leave (Continued)**

- \* Sick pay: Sick leave days may be accumulated to a maximum of one hundred eighty(180) days.
- \* Personal days: Full-time employees will be granted three personal days each year.

In no case shall an employee be allowed to accrue, at any one time, more than one and one-half the amount of annual personal leave to which he/she is entitled. If the amount of accrued vacation exceeds one and one-half the amount of annual personal leave to which the person is entitled, it shall be permanently lost and the employee shall not be allowed to receive.

If a new employee leaves employment before completing one(1) year of service, she/he will receive no personal leave pay. An employee who has served one(1) year or more can be paid for any unused personal leave due him/her when he/she leaves the Commission service on a pro rata basis. An employee who resigns without giving two(2) weeks prior notification to the Commission may not be paid unused personal leave.

The amount of accumulated benefits at June 30, 2004, was \$6,416, and is recorded as a liability in the applicable funds.

**Post Employment Benefits**

The provision for pension cost is recorded on an accrual basis, and the Commission's policy is to fund pension costs as they accrue.

**Income Taxes**

As a component unit of a Michigan home rule city, the Housing Commission is exempt from federal and state income taxes. The Housing Commission has no unrelated business income.

REED CITY HOUSING COMMISSION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2004  
=====

**NOTE 2: CASH AND INVESTMENTS**

The Housing Commission maintains cash and investment accounts in the Low Rent Program and Housing Choice Voucher funds. Landlord checks are processed through the Housing Choice Voucher account. All other receipts and disbursements are processed through the Low Rent Program accounts.

HUD authorizes the Housing Commission to invest in certificates of deposit, money-market funds, United States government securities, and repurchase agreements fully collateralized by United States government securities.

The Housing Commission's investments are categorized below to give an indication of the level of risk assumed by the entity at year end.

Category 1: Includes deposits that are insured, registered, or for which the collateral securities are held by the Housing Commission or its agent in the Housing Commission's name. This includes FDIC or equivalent insurance coverage.

Category 2: Includes deposits for which the collateral securities are held by the dealer's trust department or agent in the Housing Commission's name.

Category 3: Includes all uninsured and uncollateralized deposits.

For all deposits shown below, the market value at the balance sheet date is substantially the same as the carrying value. The difference between the bank balance and carrying value is due to outstanding checks and/or deposits in transit. At various times during the year, the Housing Commission's deposits may have been higher than the June 30, 2004, balances detailed below. This means that the Housing Commission's risk and exposure could have been higher at these times. The Housing Commission had no significant

REED CITY HOUSING COMMISSION  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
June 30, 2004  
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**NOTE 2: CASH AND INVESTMENTS (Continued)**

type of deposits during the year not included below.

<u>Depository Balances by Category</u>					<u>Carrying Value</u>
<u>Depository</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>Total</u>	
Huntington					
National Bank	\$258,219	\$ 30,000	\$102,757	\$390,976	\$383,631
Lake Odessa					
State Bank	63,322			63,322	63,322
Fifth Third Bank	41,741			41,741	41,741
Chemical Bank	<u>6,979</u>			<u>6,979</u>	<u>6,979</u>
Total Deposits	<u>\$370,261</u>	<u>\$ 30,000</u>	<u>\$102,757</u>	<u>\$503,018</u>	495,673
Change fund					100
Petty cash					<u>130</u>
					<u>\$495,903</u>
<u>Reconciliation to Cash on Balance Sheet</u>					
Cash					<u>\$495,903</u>

**NOTE 3: RECEIVABLES AND PAYABLES**

**Tenant Accounts Receivable**

Tenant accounts receivable are recorded at gross amount and reduced by the estimated amount uncollectible. At June 30, 2004, the receivables were \$1,891 with \$1,795 estimated as uncollectible. Bad debt expense was \$1,863.

**Accounts Payables - HUD**

Amounts due to HUD represents funding due by the Housing Commission for actual expenses for the programs financed. Balances at June 30, 2004 were as follows:

Housing Choice Voucher Program	<u>\$ 6,519</u>
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REED CITY HOUSING COMMISSION  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
June 30, 2004  
=====

**NOTE 3: RECEIVABLES AND PAYABLES (Continued)**

**Inter-fund Receivables, Payables, and Transfers**

Interfund receivables and payables are recorded as "due from other programs" and "due to other programs".

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Low Rent Program	\$21,625	Housing Choice Voucher	
Business Activities		Program	\$23,278
Program	3,278	Business Activities	
		Program	1,625
	<u>\$24,903</u>		<u>\$24,903</u>

The capital fund program transferred \$23,229 to the Low Rent Program during the fiscal year ended June 30, 2004.

**NOTE 4: CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2004 was as follows:

	<u>Balance 06/30/03</u>	<u>Additions/Retirements/ Transfers</u>	<u>Balance 06/30/04</u>
<b>Capital Fund Program</b>			
Construction in progress	\$ 2,012	\$ ( 2,012)	\$
Building improvements	<u>109,343</u>	<u>67,619</u>	<u>176,962</u>
Net fixed assets	<u>\$ 111,355</u>	<u>\$ 67,619</u>	<u>\$ ( 2,012)</u>
			<u>\$ 176,962</u>

REED CITY HOUSING COMMISSION  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
June 30, 2004  
=====

	<u>Balance</u> <u>06/30/03</u>	<u>Additions/Retirements/</u> <u>Transfers</u>	<u>Transfers</u>	<u>Balance</u> <u>06/30/04</u>
<b>Low Rent Program</b>				
Land	\$ 44,618	\$	\$	\$ 44,618
Buildings	2,287,625			2,287,625
Furniture, equip. & machinery - dwellings	106,577		3,603	102,974
Furniture, equip. & machinery - administration	232,992		122	232,870
Building improvements	<u>1,468,254</u>	<u>                    </u>	<u>1,324</u>	<u>1,466,930</u>
	4,140,066	<u>\$</u>	<u>\$ ( 5,049)</u>	4,135,017
Less accumulated depreciation	<u>(2,221,548)</u>	<u>\$ (134,713)</u>	<u>\$ 5,048</u>	<u>(2,351,213)</u>
Total	<u>\$1,918,518</u>			<u>\$1,783,804</u>

**Housing Choice  
Vouchers Program**

Furniture, equip. and machinery- administration	\$ 2,367	\$	\$	\$ 2,367
	2,367	<u>\$</u>	<u>\$</u>	2,367
Less accumulated depreciation	<u>( 2,367)</u>			<u>( 2,367)</u>
Total	<u>\$</u>			<u>\$</u>

**Business Activities Program**

Furniture, equip. & machinery - administration	\$ 20,405	\$	\$	\$ 20,405
	20,405	<u>\$</u>	<u>\$</u>	20,405
Less accumulated depreciation	<u>( 20,405)</u>	<u>\$</u>		<u>( 20,405)</u>
Total	<u>\$</u>			<u>\$</u>



REED CITY HOUSING COMMISSION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2004  
=====

**NOTE 5: CONTRIBUTED CAPITAL**

The following is a summary of the activity in the Contributed Capital accounts:

	<u>Invested in Capital Assets</u>
Balance, beginning	\$ 2,050,840
Capital Fund Program reclassification	176,962
Low Rent Program reclassification	<u>( 267,036)</u>
Balance, ending	<u>\$ 1,960,766</u>

**NOTE 6: POST EMPLOYMENT BENEFITS**

The Reed City Housing Commission participates in the City of Reed City's pension plan, the Municipal Employees' Retirement System, (MERS). MERS is a Defined Benefit Program which operates within the Michigan Department and Budget, Bureau of Retirement Systems. The pension covers all eligible full-time employees and requires a minimum contribution by the employee. At December 31, 2003, the date of the last completed actuarial evaluation, the City's General Division category (the Housing Commission is included) termination liability for retirement benefits is \$2,106,284 (employer and employee combined). Valuation assets available to meet this obligation were \$1,829,834. The General Division category (which includes the Housing Commission) has twenty one (21) active members, nine (9) vested former members, and seventeen (17) retirees and beneficiaries. There is an unfunded balance of \$236,195 as of December 31, 2003. The Housing Commission contributed \$22,928.55 during the fiscal year ended June 30, 2004 to the pension plan. Statistical information concerning the plan can be obtained from MERS, which is contained in their annual plan.

**NOTE 7: CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS**

The Housing Commission operates in a heavily regulated environment. The operations of the Housing Commission are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice to inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

REED CITY HOUSING COMMISSION  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
June 30, 2004  
=====

**NOTE 8: RISK MANAGEMENT AND LITIGATION**

The Housing Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters for which it obtains coverage from commercial companies. The Housing Commission has had no settled claims resulting from these risks that exceed their commercial coverage in the current year or the three prior fiscal years.

**NOTE 9: SEGMENT INFORMATION FOR ENTERPRISE FUNDS**

The Housing Commission maintains four Enterprise Funds which provide housing assistance and grant programs. Segment information for the year ended June 30, 2004, was as follows:

	<u>Low Rent</u>	<u>Capital</u>	<u>Housing</u>	<u>Business</u>
	<u>Program</u>	<u>Fund</u>	<u>Choice</u>	<u>Activities</u>
Operating revenue	\$ 260,043	\$	\$	\$
Depreciation	134,713			
Operating (loss)	( 300,850)	( 11,265)	(288,894)	( 29,043)
Operating grants	114,724	34,494	296,119	
Capital grants		65,607		
Net income (loss)	( 143,186)	65,607	7,882	5,278
Operating transfers	23,229	( 23,229)		
Plant, property, and equipment:				
Additions		67,619		
Deletions	( 5,049)	( 2,012)		
Working capital	370,681		25,655	66,924
Total assets	2,197,752	176,962	57,890	68,549
Total net assets	2,154,485	176,962	25,655	66,924

SUPPLEMENTARY INFORMATION

REED CITY HOUSING COMMISSION  
**COMBINING STATEMENT OF NET ASSETS**  
 June 30, 2004

=====

C-3052	Capital
Low Rent	Fund
Program	Program
<u>14.850</u>	<u>14.872</u>

**ASSETS**

Current assets:		
Cash	\$ 372,742	\$
Accounts receivable-tenant	1,891	
Allowance for doubtful accounts	( 1,795)	
Prepaid expenses	19,485	
Due from other programs	<u>21,625</u>	
Total current assets	<u>413,948</u>	
Property, plant, and equipment:		
Land	44,618	
Buildings	2,287,625	
Equipment	335,844	
Building improvements	1,466,930	
Construction in progress		<u>176,962</u>
	<u>4,135,017</u>	<u>176,962</u>
Less accumulated depreciation	<u>(2,351,213)</u>	
Net property, plant and equipment	<u>1,783,804</u>	<u>176,962</u>
Total Assets	<u>\$2,197,752</u>	<u>\$ 176,962</u>

Housing Choice Vouchers <u>14.871</u>	Business Activities Program <u>          </u>	<u>Totals</u>
\$ 57,890	\$ 65,271	\$ 495,903
		1,891
		( 1,795)
		19,485
<u>          </u>	<u>3,278</u>	<u>24,903</u>
<u>57,890</u>	<u>68,549</u>	<u>540,387</u>
		44,618
		2,287,625
2,367	20,405	358,616
		1,466,930
<u>2,367</u>	<u>20,405</u>	<u>176,962</u>
( 2,367)	( 20,405)	4,334,751
		( 2,373,985)
<u>          </u>	<u>          </u>	<u>1,960,766</u>
<u>\$ 57,890</u>	<u>\$ 68,549</u>	<u>\$ 2,501,153</u>

REED CITY HOUSING COMMISSION  
**COMBINING STATEMENT OF NET ASSETS (CONTINUED)**  
 June 30, 2004

=====

C-3052	Capital
Low Rent	Fund
Program	Program
<u>14.850</u>	<u>14.872</u>

**LIABILITIES and NET ASSETS**

Current liabilities:

Accounts payable	\$ 15,251	\$
Tenant security deposit liability	19,642	
Accrued expenses	3,978	
Deferred revenues	4,396	
Due to other programs	<u>          </u>	<u>          </u>

Total current liabilities	<u>43,267</u>	<u>          </u>
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Total liabilities	<u>43,267</u>	<u>          </u>
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Net Assets:

Invested in capital assets	1,783,804	176,962
Unrestricted net assets	<u>370,681</u>	<u>          </u>

Total net assets	<u>2,154,485</u>	<u>176,962</u>
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Total Liabilities and Net Assets	<u>\$2,197,752</u>	<u>\$ 176,962</u>
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Housing Choice Vouchers <u>14.871</u>	Business Activities Program	Totals
\$ 6,519	\$	\$ 21,770
		19,642
2,438		6,416
		4,396
<u>23,278</u>	<u>1,625</u>	<u>24,903</u>
<u>32,235</u>	<u>1,625</u>	<u>77,127</u>
<u>32,235</u>	<u>1,625</u>	<u>77,127</u>
		1,960,766
<u>25,655</u>	<u>66,924</u>	<u>463,260</u>
<u>25,655</u>	<u>66,924</u>	<u>2,424,026</u>
<u>\$ 57,890</u>	<u>\$ 68,549</u>	<u>\$ 2,501,153</u>

REED CITY HOUSING COMMISSION  
**COMBINING STATEMENT OF REVENUE, EXPENSES AND  
 CHANGES IN NET ASSETS**  
 Year Ended June 30, 2004

=====

	C-3052 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
<b>OPERATING REVENUES:</b>		
Dwelling rent	\$ 258,084	\$
Nondwelling rent	<u>1,959</u>	<u></u>
Total operating revenues	<u>260,043</u>	<u></u>
<b>OPERATING EXPENSES:</b>		
Administration	132,023	8,355
Tenant services	780	
Utilities	95,906	
Ordinary maintenance and operation	143,667	2,910
General expenses	53,804	
Housing assistance payments		
Depreciation	<u>134,713</u>	<u></u>
Total operating expenses	<u>560,893</u>	<u>11,265</u>
Operating income(loss)	<u>( 300,850)</u>	<u>(11,265)</u>
<b>NONOPERATING REVENUES AND (EXPENSES):</b>		
Operating transfers in (out)	23,229	( 23,229)
Investment interest income	6,404	
Other income	12,807	
Gain on sale of fixed assets	500	
Capital grants		65,607
Operating grants	<u>114,724</u>	<u>34,494</u>
Total nonoperating revenues (expenses)	<u>157,664</u>	<u>76,872</u>
Net income(loss)	( 143,186)	65,607
Net assets, beginning	<u>2,297,671</u>	<u>111,355</u>
Net assets, ending	<u>\$2,154,485</u>	<u>\$176,962</u>



Housing Choice Vouchers <u>14.871</u>	Business Activities Program <u>          </u>	<u>Totals</u>
\$	\$	\$ 258,084
		<u>1,959</u>
		<u>260,043</u>
33,062	29,043	202,483
		780
		95,906
		146,577
		53,804
255,832		255,832
		<u>134,713</u>
<u>288,894</u>	<u>29,043</u>	<u>890,095</u>
<u>( 288,894)</u>	<u>( 29,043)</u>	<u>( 630,052)</u>
657	594	7,655
	33,727	46,534
		500
		65,607
<u>296,119</u>		<u>445,337</u>
<u>296,776</u>	<u>34,321</u>	<u>565,633</u>
7,882	5,278	( 64,419)
<u>17,773</u>	<u>61,646</u>	<u>2,488,445</u>
<u>\$ 25,655</u>	<u>\$ 66,924</u>	<u>\$ 2,424,026</u>

REED CITY HOUSING COMMISSION  
**COMBINING STATEMENT OF CASH FLOWS**  
 Year Ended June 30, 2004

	C-3052 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
<b>Cash flows from operating activities:</b>		
Operating(loss)	\$( 300,850)	\$( 11,265)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:		
Depreciation	134,713	
Bad debt expense	72	
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable-tenants	2,547	
Prepaid expenses	3,459	
Due from other funds	( 20,940)	
Increase (decrease) in liabilities:		
Accounts payable-operations	( 1,152)	
Accrued compensated absences	335	
Accounts payable-PILOT	( 927)	
Tenant security deposits	105	
Deferred revenues	1,807	
Due to other funds		
Net cash (used in) operating activities	<u>( 180,831)</u>	<u>( 11,265)</u>
<b>Cash flows from noncapital financing activities:</b>		
Operating transfers in (out)	23,229	( 23,229)
Operating grants	117,095	34,494
Other revenue	<u>12,807</u>	
Net cash provided by noncapital financing activities	<u>153,131</u>	<u>11,265</u>
<b>Cash flows from capital and related financing activities:</b>		
Gain on sale of fixed assets	500	
Capital grants		65,607
Payments for capital acquisitions		<u>( 65,607)</u>
Net cash provided by capital and related financing activities	<u>500</u>	

<u>Housing Choice Vouchers 14.871</u>	<u>Business Activities Program</u>	<u>Totals</u>
\$ ( 288,894)	\$ ( 29,043)	\$ ( 630,052)
		134,713
		72
		2,547
		3,459
	( 3,278)	( 24,218)
( 665)		( 1,152)
		( 330)
		( 927)
		105
		1,807
<u>23,278</u>	<u>940</u>	<u>24,218</u>
<u>( 266,281)</u>	<u>( 31,381)</u>	<u>( 489,758)</u>
271,752		423,341
<u>271,752</u>	<u>33,727</u>	<u>46,534</u>
		500
		65,607
		( 65,607)
		500

REED CITY HOUSING COMMISSION  
**COMBINING STATEMENT OF CASH FLOWS (CONTINUED)**  
Year Ended June 30, 2004

	C-3052 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
<b>Cash flows from investing activities:</b>		
Certificates of deposits matured	163,242	
Receipts of interest and dividends	<u>6,405</u>	
Net cash provided by investing activities	<u>169,647</u>	
Net increase(decrease) in cash	142,447	
Cash, beginning	<u>230,295</u>	
Cash, ending	<u><u>\$ 372,742</u></u>	<u><u>\$</u></u>

**Reconciliation of cash and cash equivalents per statement of cash flows to the balance sheet:**

Cash	\$ 372,742	\$
Restricted cash	<u>                    </u>	<u>                    </u>
Cash and cash equivalents per balance sheet	<u><u>\$ 372,742</u></u>	<u><u>\$</u></u>

Housing Choice Vouchers <u>14.871</u>	Business Activities Program <u>          </u>	<u>Totals</u>
26,494	44,783	234,519
<u>657</u>	<u>594</u>	<u>7,656</u>
<u>27,151</u>	<u>45,377</u>	<u>242,175</u>
32,622	47,723	222,792
<u>25,268</u>	<u>17,548</u>	<u>273,111</u>
<u>\$ 57,890</u>	<u>\$ 65,271</u>	<u>\$ 495,903</u>

<u>\$ 57,890</u>	<u>\$ 65,271</u>	<u>\$ 495,903</u>
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<u>\$ 57,890</u>	<u>\$ 65,271</u>	<u>\$ 495,903</u>
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REED CITY HOUSING COMMISSION  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**AND NOTES TO THE SCHEDULE OF FEDERAL AWARDS**  
Year Ended June 30, 2004  
=====

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year	<u>Federal Grantor</u>	<u>CFDA No.</u>	<u>Expenditures</u>
	<u>U.S. Department of HUD</u>		
	<u>Public and Indian Housing Nonmajor - Direct Program</u>		
2004	Low Rent Public Housing	14.850	\$ 114,724
	<u>Public and Indian Housing Nonmajor - Direct Program</u>		
2004	Capital Fund Program	14.872	100,101
	<u>Low Income Public Housing Major - Direct Program</u>		
2004	Housing Choice Vouchers	14.871	<u>296,119</u>
	Total		<u>\$ 510,944</u>

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

**NOTE 1: Significant Accounting Policies**

The schedule of federal awards has been prepared on the accrual basis of accounting.

CFDA = Catalog of Federal Domestic Assistance

REED CITY HOUSING COMMISSION

**FINANCIAL DATA SCHEDULE**

Year Ended June 30, 2004

=====

FDS Line Item No.		C-3052 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
<b>ASSETS</b>			
	Current Assets:		
	Cash:		
111	Cash-unrestricted	\$ 355,742	\$
114	Cash-tenant security deposits	<u>17,000</u>	
100	Total cash	<u>372,742</u>	
	Receivables:		
126	A/R-tenants-dwelling rents	1,891	
126.1	Allowance for doubtful accounts - dwelling rents	<u>( 1,795)</u>	
120	Total receivables, net of allowance for doubtful accounts	<u>96</u>	
	Other Current Assets:		
142	Prepaid expenses and other assets	19,485	
144	Interprogram due from	<u>21,625</u>	
	Total other current assets	<u>41,110</u>	
150	Total current assets	<u>413,948</u>	
	Noncurrent Assets:		
	Fixed Assets:		
161	Land	44,618	
162	Buildings	2,287,625	
163	Furn, equip & mach-dwellings	102,974	
164	Furn, equip & mach-admin.	232,870	
165	Building improvements	1,466,930	
166	Accumulated depreciation	(2,351,213)	
167	Construction in progress		<u>176,962</u>
160	Total fixed assets, net of accumulated depreciation	<u>1,783,804</u>	<u>176,962</u>
180	Total noncurrent assets	<u>1,783,804</u>	<u>176,962</u>
190	Total Assets	<u>\$ 2,197,752</u>	<u>\$176,962</u>

Housing Choice Vouchers 14.871	Business Activities Program	Totals
\$ 57,890	\$ 65,271	\$ 478,903
		17,000
<u>57,890</u>	<u>65,271</u>	<u>495,903</u>
		1,891
		( 1,795)
		96
		19,485
	3,278	<u>24,903</u>
	3,278	<u>44,388</u>
<u>57,890</u>	<u>68,549</u>	<u>540,387</u>
		44,618
		2,287,625
		102,974
2,367	20,405	255,642
		1,466,930
( 2,367)	( 20,405)	( 2,373,985)
		<u>176,962</u>
		<u>1,960,766</u>
		<u>1,960,766</u>
<u>\$ 57,890</u>	<u>\$ 68,549</u>	<u>\$ 2,501,153</u>



REED CITY HOUSING COMMISSION  
**FINANCIAL DATA SCHEDULE (CONTINUED)**  
 Year Ended June 30, 2004

=====

FDS Line Item No.		C-3052 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
<b>LIABILITIES and NET ASSETS</b>			
	Liabilities:		
	Current Liabilities:		
312	Accounts payable<=90 days	\$ 860	\$
322	Accrued compensated absences	3,978	
331	Accounts payable-HUD PHA program		
333	Accounts payable-other government	14,391	
341	Tenant security deposits	19,642	
342	Deferred revenues	4,396	
347	Interprogram due to	<u>          </u>	<u>          </u>
310	Total current liabilities	<u>43,267</u>	<u>          </u>
300	Total liabilities	<u>43,267</u>	<u>          </u>
	Net Assets:		
508.1	Invested in capital assets	<u>1,783,804</u>	<u>176,962</u>
508	Total invested in capital assets	1,783,804	176,962
512.1	Unrestricted net assets	<u>370,681</u>	<u>          </u>
513	Total Net Assets	<u>2,154,485</u>	<u>176,962</u>
600	Total Liabilities and Net Assets	<u>\$ 2,197,752</u>	<u>\$176,962</u>

Housing Choice Vouchers <u>14.871</u>	Business Activities Program <u>          </u>	<u>Total</u>
\$	\$	\$
2,438		860
6,519		6,416
		6,519
		14,391
		19,642
		4,396
<u>23,278</u>	<u>1,625</u>	<u>24,903</u>
<u>32,235</u>	<u>1,625</u>	<u>77,127</u>
<u>32,235</u>	<u>1,625</u>	<u>77,127</u>
<u>          </u>	<u>          </u>	<u>1,960,766</u>
		1,960,766
<u>25,655</u>	<u>66,924</u>	<u>463,260</u>
<u>25,655</u>	<u>66,924</u>	<u>2,424,026</u>
<u>\$ 57,890</u>	<u>\$ 68,549</u>	<u>\$ 2,501,153</u>

REED CITY HOUSING COMMISSION  
**FINANCIAL DATA SCHEDULE (CONTINUED)**  
 Year Ended June 30, 2004

FDS Line Item No.		C-3052 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	<b>Revenue:</b>		
703	Net tenant rental revenue	\$ 258,084	\$
704	Tenant revenue-other	<u>1,959</u>	
705	Total tenant revenue	260,043	
706	HUD PHA grants	114,724	34,494
706.1	Capital grants		65,607
711	Investment income-unrestricted	6,404	
715	Other revenue	12,807	
716	Gain/loss on sale of fixed assets	<u>500</u>	
700	Total revenue	<u>394,478</u>	<u>100,101</u>
	<b>Expenses:</b>		
	Administrative:		
911	Administrative salaries	62,484	8,355
912	Auditing fees	1,060	
914	Compensated absences	335	
915	Employee benefit contributions-adm.	48,936	
916	Other operating-administrative	19,208	
	Tenant Services:		
924	Tenant services-other	780	
	Utilities:		
931	Water	23,302	
932	Electricity	38,318	
933	Gas	34,286	
	Ordinary maintenance and operation:		
941	Ordinary maint & oper-labor	48,316	2,910
942	Ordinary maint & oper-mat'ls & other	19,567	
943	Ordinary maint & oper-contract costs	28,936	
945	Employee benefit contributions	38,449	
952	Protective services-other contract costs	8,399	
	General expenses:		
961	Insurance premiums	37,550	
963	Payments in lieu of taxes	14,391	
964	Bad debt - tenant rents	<u>1,863</u>	
969	Total operating expenses	<u>426,180</u>	<u>11,265</u>
970	Excess operating revenue over operating expenses	<u>( 31,702)</u>	<u>88,836</u>

Housing Choice Vouchers 14.871	Business Activities Program	Total
\$	\$	\$ 258,084
		1,959
		260,043
296,119		445,337
		65,607
657	594	7,655
	33,727	46,534
		500
<u>296,776</u>	<u>34,321</u>	<u>825,676</u>
21,598	20,199	112,636
	940	2,000
		335
3,072	1,545	53,553
8,392	6,359	33,959
		780
		23,302
		38,318
		34,286
		51,226
		19,567
		28,936
		38,449
		8,399
		37,550
		14,391
		1,863
<u>33,062</u>	<u>29,043</u>	<u>499,550</u>
<u>263,714</u>	<u>5,278</u>	<u>326,126</u>

REED CITY HOUSING COMMISSION  
**FINANCIAL DATA SCHEDULE (CONTINUED)**  
 Year Ended June 30, 2004

FDS Line Item No.		C-3052 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	<b>Expenses continued:</b>		
	Other expenses:		
973	Housing assistance payments		
974	Depreciation expense	<u>134,713</u>	
	Total other expenses	<u>134,713</u>	
900	Total expenses	<u>560,893</u>	<u>11,265</u>
	Excess (deficiency) of operating revenue over(under) expenses before other financing sources (uses)	( 166,415)	88,836
	<b>Other Financing Sources(Uses):</b>		
1001	Operating transfers in (out)	<u>23,229</u>	<u>( 23,229)</u>
1000	Excess (deficiency) of operating revenue over(under) expenses	( 143,186)	65,607
1103	Beginning Net Assets	<u>2,297,671</u>	<u>111,355</u>
	Ending Net Assets	<u>\$ 2,154,485</u>	<u>\$176,962</u>

Housing Choice Vouchers <u>14.871</u>	Business Activities Program <u>          </u>	<u>Totals</u>
255,832		255,832
		<u>134,713</u>
<u>255,832</u>		<u>390,545</u>
<u>288,894</u>	<u>29,043</u>	<u>890,095</u>
7,882	5,278	( 64,419)
7,882	5,278	( 64,419)
<u>17,773</u>	<u>61,646</u>	<u>2,488,445</u>
<u>\$ 25,655</u>	<u>\$ 66,924</u>	<u>\$ 2,424,026</u>

**Barry E. Gaudette, CPA, P.C.**

CERTIFIED PUBLIC ACCOUNTANT

**Report on Compliance and on Internal Control Over  
Financial Reporting Based on an Audit of  
Financial Statements Performed in Accordance  
with Government Auditing Standards**

1107 East Eighth Street  
Traverse City, Michigan 49686  
(231) 946-8930  
Fax (231) 946-1377

Board of Housing Commissioners  
Reed City Housing Commission  
Reed City, Michigan

We have audited the financial statements of the Reed City Housing Commission, Michigan, (Housing Commission) as of and for the year ended June 30, 2004, and have issued our report thereon dated October 20, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Housing Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Housing Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk

Report on Compliance and on Internal Control  
In Accordance with Government Auditing Standard  
Reed City Housing Commission  
Page Two

***Internal Control Over Financial Reporting - Continued***

that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. We have noted other matters involving the internal control over financial reporting that we have reported to management of the Housing Commission in a separate letter dated October 20, 2004.

This report is intended solely for the information and use of the audit committee, Board of Housing Commissioners, management, others within the organization, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Bary E. Tardella, CPA, PL*

October 20, 2004



**Barry E. Gaudette, CPA, P.C.**

CERTIFIED PUBLIC ACCOUNTANT

1107 East Eighth Street  
Traverse City, Michigan 49686  
(231) 946-8930  
Fax (231) 946-1377

**Report on Compliance with Requirements  
Applicable To Each Major Program and  
Internal Control over Compliance  
in Accordance with OMB Circular A-133**

Board of Housing Commissioners  
Reed City Housing Commission  
Reed City, Michigan

**Compliance**

We have audited the compliance of the Reed City Housing Commission, Michigan (Housing Commission) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Housing Commission's management. Our responsibility is to express an opinion on the Housing Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Housing Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Housing Commission's compliance with those requirements.

Report on Compliance and Internal Control  
Over Compliance in Accordance With  
OMB Circular A-133  
Reed City Housing Commission  
Page Two

**Compliance (continued)**

In our opinion, Housing Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

**Internal Control Over Compliance**

The management of the Housing Commission is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. We have noted other matters involving the internal control over financial reporting that we have reported to management of the Housing Commission in a separate letter dated October 20, 2004.

This report is intended solely for the information and use of the audit committee, Board of Housing Commissioners, management, others within the organization, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Barry E. Taulbert, CPA*

October 20, 2004

REED CITY HOUSING COMMISSION  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
 June 30, 2004  
 =====

**A. Summary of Audit Results**

Financial Statements

- |  |             |
|--|-------------|
| 1. Type of Auditor's Report issued:                                | Unqualified |
| 2. Internal control over financial reporting:                      |             |
| a. Material weakness identified                                    | No          |
| b. Reportable condition identified that is not a material weakness | No          |
| 3. Noncompliance material to financial statements:                 | No          |

Federal Awards

- |  |             |
|--|-------------|
| 1. Internal control over major programs:   |             |
| a. Material weakness identified  | No          |
| b. Reportable condition that is not a material weakness  | No          |
| 2. Type of auditor's report issued on compliance for major programs  | Unqualified |
| 3. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133 | No          |
| 4. Identification of major programs:   |             |

CFDA Number	Federal Program	Amount Expended	Major Program	Compliance Requirement	Questioned Costs	Audit Finding
14.850	Low Rent Public Housing	\$ 114,724	No	O	N/A	N/A
14.872	Capital Fund Program	100,101	No	O	N/A	N/A
14.871	Housing Choice Vouchers	<u>296,119</u>	Yes	O	N/A	N/A
<b>Total</b>		<u>\$ 510,944</u>				

- |  |           |
|--|-----------|
| 5. Dollar threshold used to distinguish between type A and type B programs | \$300,000 |
| 6. Auditee qualified as low-risk auditee?                                  | Yes       |

REED CITY HOUSING COMMISSION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
June 30, 2004

=====

B.	Financial Statement Findings	None
C.	Federal Award Findings and Questioned Costs	None

REED CITY HOUSING COMMISSION  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
June 30, 2004  
=====

NONE

REED CITY HOUSING COMMISSION  
INDEPENDENT AUDITORS' REPORTS  
ON COMMUNICATIONS WITH THE  
AUDIT COMMITTEE/BOARD OF COMMISSIONERS  
AND  
MANAGEMENT ADVISORY COMMENTS

JUNE 30, 2004

REED CITY HOUSING COMMISSION  
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JUNE 30, 2004

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**INDEPENDENT AUDITORS' REPORT ON  
COMMUNICATIONS WITH THE AUDIT COMMITTEE/  
BOARD OF COMMISSIONERS**

To the Board of Commissioners  
Reed City Housing Commission

We have audited the financial statements of the Reed City Housing Commission ("Housing Commission") as of and for the year ended June 30, 2004, and have issued our report, thereon, dated October 20, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we communicate certain matters to your audit committee or its equivalent. These communications are reported in the following paragraphs.

**Auditors' Responsibilities Under Auditing Standards Generally Accepted in the United States of America** - In planning and performing our audit of the financial statements, we considered your internal control in order to determine our auditing procedures for purposes of expressing our opinion on the financial statements and not to provide assurance on your internal control. Also, an audit conducted under auditing standards generally accepted in the United States of America is designed to obtain a reasonable, rather than absolute, assurance about the financial statements.

**Significant Accounting Policies** - The significant accounting policies used in the preparation of your financial statements are discussed in Note 1 to the financial statements. There were no audit adjusting journal entries and no controversial accounting issues.

**Management Judgments and Accounting Estimates** - Significant management judgments and accounting estimates are disclosed in the notes to the financial statements.

**Other Information in Documents Containing Audited Financial Statements** - All the information included in the financial statements document has been audited and our responsibilities are addressed in the Independent Auditors' Report.



**INDEPENDENT AUDITORS' REPORT ON COMMUNICATIONS WITH THE  
AUDIT COMMITTEE - CONTINUED**

**Audit Adjustments** - For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Housing Commission's financial reporting process (that is, cause future financial statements to be materially misstated). The attached audit adjustments, in our judgment, indicate matters that could have a significant effect on the Housing Commission's financial reporting process (see page 6 showing the audit adjusting journal entries).

**Disagreements With Management** - For purposes of this letter, professional accounting standards define disagreement with management as a matter concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the audit.

**Consultations With Other Accountants** - To our knowledge, management has not consulted with other accountants regarding auditing and accounting matters.

**Major Issues Discussed With Management Prior to Retention** - There was no discussions regarding the application of accounting principles or auditing standards with management prior to our retention as your auditor.

**Difficulties Encountered in Performing the Audit** - There were no difficulties encountered in performing the audit. The staff was very cooperative and helpful.

This report is intended solely for the information and use of the audit committee or its equivalent and management and is not intended to be and should not be used by anyone other than these specified parties.

We shall be pleased to discuss any of the matters referred to in this letter. Should you desire more information on the above communications, we would welcome the opportunity to discuss them with you.

*Bany E. Vandell, CPA, PC*

October 20, 2004

**INDEPENDENT AUDITORS' REPORT ON  
MANAGEMENT ADVISORY COMMENTS**

To the Board of Commissioners  
Reed City Housing Commission

We have audited the financial statements of the Reed City Housing Commission ("Housing Commission") as of and for the year ended June 30, 2004, and have issued our report, thereon, dated October 20, 2004. We have also issued compliance reports and reports on the internal control in accordance with *Government Auditing Standards*. These reports disclosed no material instances of noncompliance, weaknesses and reportable conditions.

Other matters involving the Housing Commission's operations and internal control, which came to our attention during the audit, are reported on the following pages as management advisory comments.

We would like to take this opportunity to acknowledge the many courtesies extended to us by the Housing Commission's personnel during the course of our work.

We shall be pleased to discuss any of the matters referred to in this letter. Should you desire assistance in implementing any of the following suggestions, we would welcome the opportunity of assisting you in these matters.

*Barry E. Gaudette, CPA, P.C.*

October 20, 2004

REED CITY HOUSING COMMISSION  
MANAGEMENT ADVISORY COMMENTS

June 30, 2004

=====

**Cash Collections**

Tenants currently can pay their rents by cash, check or money order.

We recommend that the Housing Commission consider not allowing payments by cash. This would provide another internal control in the collection of assets.

**Invoices**

The invoices are attached to check copies before being filed, but the process of approving the payment of the invoices does not include marking on the invoice "paid" or initialed for approval.

We recommend that the invoices be marked "paid" or/and initialed by the Executive Director. This will ensure that the invoice will not be paid twice.

**Check Signing**

The checks require two signatures, the executive director and one commissioner. A stamp is used for the signatures, but the commissioner usually does not stamp the checks.

We recommend that the each check signer either sign or stamp each check themselves. The stamp needs to be kept in the possession of each check signer.

**Laundromat Collections**

Currently only one employee collects the laundromat monies.

We recommend that another employee accompany the employee that usually collects the monies.

**Certificate of Deposits**

The Housing Commission has several Certificate of Deposits, but there is not a policy in place that requires two signatures to start or cash in a Certificate of Deposit.

We recommend that the Housing Commission adopt a resolution that would require two signatures to open up a certificate of deposit or to cash in a certificate of deposit. This policy would provide another internal control for the safe guarding of assets.

REED CITY HOUSING COMMISSION  
MANAGEMENT ADVISORY COMMENTS (CONTINUED)

June 30, 2004

=====

**Tenant Deposits**

The deposit ticket is reviewed by someone other than the employee that makes the deposit, but is not initialed that it was reviewed.

We recommend that the Housing Commission have the employee that does not make the deposit review the deposit ticket and then after the deposit ticket receipt is brought back, this employee should review that the deposit is the correct amount and also initial the deposit ticket receipt.

REED CITY HOUSING COMMISSION

**ADJUSTING JOURNAL ENTRIES**

June 30, 2004

=====

<u>Account #</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
------------------	---------------------	--------------	---------------

LOW RENT PROGRAM

There are no audit adjusting journal entries.